focus

focus on fundamentals

ANNUAL REPORT 2002 | 2003

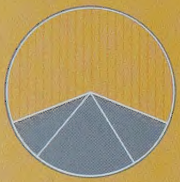
HÉROUX DEVTEK

Héroux-Devtek at a glance

Products & Services | **Principal Clients**

LANDING GEAR

Employees: **750**
Sales: **$161.2 M**



Products & Services

Longueuil
Design, manufacture and repair of components and complete landing gear for military and commercial aircraft

Laval
Manufacture and repair and overhaul of small components for landing gear and hydraulic flight control actuators

Manufacture of critical parts such as helicopter rotors

Kitchener
Manufacture of large landing gear components for commercial and military aircraft and replacement parts for out of production aircraft

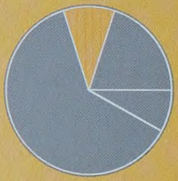
Principal Clients

Civilian
Boeing, Bombardier, Goodrich, Lockheed-Martin, Messier-Dowty, Northrop-Grumman

Military
Canadian Forces, US Air Force, US Navy

AEROSTRUCTURE

Employees: **180**
Sales: **$24.0 M**



Products & Services

Héroux-Devtek Aerostructure Inc. *(Dorval)*
Manufacture of large-sized aircraft structural components

Metro Machining *(Montreal)*
Manufacture of medium-sized aircraft structural components

Les Industries C.A.T. *(Montreal)*
Manufacture of small-sized aircraft structural components

Magtron *(Toronto)*
Manufacture and assembly of high precision components for the aerospace and defence sectors

Principal Clients

Civilian
Boeing, Bombardier, McDonald Detwiller, Raytheon

GAS TURBINE COMPONENTS

Employees: **120**
Sales: **$52.5 M**

Products & Services

Cincinnati / Tampa
Manufacture of large scale components for gas turbines used in the production of electricity

Manufacture of precision components for the aerospace and industrial sectors

Manufacture of engine parts for aircraft

Principal Clients

Aerospace
Boeing, GE Aircraft Engines, Snecma

Military
US Navy

Industrial
GE Power Systems, Siemens-Westinghouse

LOGISTICS & DEFENCE

Employees: **90**
Sales: **$22.9 M**

Products & Services

Diemaco *(Kitchener)*
Manufacture and support for military small arms

Principal Clients

Defence
Canada, Denmark, Great Britain, Norway, The Netherlands

financial highlights

HÉROUX-DEVTEK AR 2002/2003

Years ended March 31
(In thousands of dollars, except per share data)

	2003	2002	2001	2000	1999
Sales	$ 260,631	$ 316,280	$ 259,077	$ 143,737	$ 122,885
Gross profit	$ 32,375	$ 56,882	$ 44,974	$ 19,326	$ 16,711
Gross profit margin	12.4 %	18.0 %	17.4 %	13.4 %	13.6 %
EBITDA[1]	$ 21,509	$ 42,922	$ 34,831	$ 15,541	$ 14,492
EBITDA margin	8.3 %	13.6 %	13.4 %	10.8 %	11.8 %
Net income	$ 154	$ 17,424	$ 12,465	$ 3,463	$ 2,740
Net income margin	0.1 %	5.5 %	4.8 %	2.4 %	2.2 %
EPS-Basic	$ 0.01	$ 0.72	$ 0.58	$ 0.24	$ 0.19
EPS-Diluted	$ 0.01	$ 0.72	$ 0.58	$ 0.24	$ 0.19
As at March 31					
Total assets	$ 289,067	$ 299,637	$ 269,844	$ 140,576	$ 107,753
Working capital	$ 81,860	$ 84,779	$ 52,903	$ 51,696	$ 36,809
Long-term debt-to-equity	0.51	0.46	0.39	0.80	0.47
Book value per common share	$ 5.31	$ 5.35	$ 4.39	$ 3.55	$ 3.55
Cash flow from operations	$ 16,003	$ 32,101	$ 22,902	$ 11,359	$ 11,367
Average number of shares outstanding	24,212.9	24,063.0	21,543.0	14,688.4	14,588.6
Shares outstanding at year-end	23,544.7	24,443.9	23,291.7	14,908.3	14,627.4
Fully diluted shares (used for diluted EPS)	24,212.9	24,345.5	21,614.0	14,688.4	14,588.6

[1] EBITDA represents net income before amortization, income taxes (or income tax recovery) and financial expenses. In 2003, EBITDA also includes write-down of capital assets ($3,937) and goodwill impairment ($1,206).

transition

A World in Transition

Geopolitical uncertainty and large-scale corporate failures have shaken global markets to the core and dealt a tremendous blow to businesses worldwide. In conjunction with rapid, far-reaching economic changes that include technological innovation and the opening of foreign markets, these forces are shaping a new business reality. Companies in markets directly impacted by recent events are being challenged to quickly restructure and realign to adapt to this new reality.

Héroux-Devtek is meeting this challenge head-on. We are already well into the process of streamlining our operations to create lean centres of excellence ready to respond to our customers needs and seek out new markets for our products.

message to shareholders


GILLES LABBÉ


HELMUT HOFMANN

Fiscal 2003 presented one of the most challenging economic environments Héroux-Devtek has yet faced. Caught between the aftermath of 9/11 and the prospect of war in Iraq, the commercial airline industry was fraught with financial instability. At the same time, the power generation market virtually collapsed. The only bright spot for the year was the military market, which continued to grow as the US and its allies increased defense spending.

Héroux-Devtek reacts swiftly to realign its operations

As the scope of the downturn in our main markets became evident, Héroux-Devtek reacted swiftly to realign its operations. Consolidation was the byword for the second half of fiscal 2003. In recent months we have announced the merging of operations in our Gas Turbine Components, Aerostructure and Landing Gear divisions, reducing our number of manufacturing sites from eleven to eight. This move is in line with our business strategy of creating centres of excellence for each facet of our business.

At the same time, we restructured our Aerostructure division, placing it under the management group that directs the Landing Gear division. The two divisions serve the same customers, and the newer Aerostructure division will be able to benefit from Landing Gear's depth of industry expertise.

We are implementing the consolidations over a transition period of several months to minimize the impact of these changes on our customers. The full financial benefits of the consolidations will only be seen in the second half of fiscal 2004, once the transition period ends.

Economy impacts 2003 financial results

Our financial results for fiscal 2003 provide an eloquent statement of what would lie in store for the coming year had we not moved quickly to realign our cost structure. Year-over-year consolidated sales were down 17.6% at $260.6 million compared to $316.3 million for fiscal 2002. Fiscal 2002 was a strong year for the military sector. In 2003, we not only maintained our military sales but increased them by 3.5%. However, with reduced activity in all other sectors of our business, this was not sufficient to offset the general decline.

As the consolidations were not yet fully implemented in fiscal 2003, we continued to carry our full manufacturing overhead costs throughout the year. Consequently, the drop in sales caused our consolidated gross profit to decline from 18.0% in fiscal 2002 to 12.4% in fiscal 2003. Taking into account $9.2 million restructuring charges and goodwill impairment related to consolidation in the Gas Turbine Components division, we reported net income of $154,000 for the year or $0.01 per share, compared to last year's net income of $17.4 million or $0.72 per share. Without the restructuring charges and goodwill impairment, net income for fiscal 2003 would have been $6.6 million or $0.28 per share.

Landing Gear division lands new contracts

Last year, the Landing Gear division won over $88 million in new contracts to build a variety of military landing gear. This includes a $17 million contract from The Boeing Company to design the landing gear for its Unmanned Combat Air Vehicle (UCAV) and $71.7 million in contracts from the U.S. military. The Company is presently in the bidding process for the repair and overhaul of aircraft landing gear contract with the U.S. Air Force, valued at approximately $12 million on an annual basis, for which a decision should be made in the summer of 2003.

Even so, it will be a challenge for the division to maintain its business volume in fiscal 2004. We are looking to our consolidation efforts and the ongoing realignment of our organizational structure within the division to streamline our cost structure.

Aerostructure division posts a slight increase in sales

After lagging in the first part of the year, aerostructure sales picked up in the fourth quarter to end the year slightly better than last year. Sales for this division may well continue to grow in the current year if the regional jet market stays firm. Indications are that the U.S. carriers will emerge from the restructuring in the airline industry stronger and looking to expand their regional jet fleets as early as this year.

Gas Turbine Components division consolidates to regain profitability

After a year of upheaval that saw industrial gas turbine deliveries fall by half, the Gas Turbine Components is looking ahead to a return to profitability by the end of the current fiscal year. The centralization of operations at a single site will reduce overheads substantially once the six-month transition period ends. In the meantime, we are seeing our share of the aircraft engine market rise as OEMs consolidate their supplier bases.

Logistics & Defence division adds new NATO countries to its licence territory

Diemaco's licence territory was expanded in fiscal 2003 to include the new NATO countries. The division is now devoting extensive effort to getting the export approval process amended, as restrictive Canadian Export Regulations still hamper our ability to export to these new allies. With a backlog of $27 million, the Canadian C7 midlife upgrade program starting up and significant opportunities opening in some European countries, we are looking for steady to moderately higher division sales this year.

Héroux-Devtek focuses on its business strategy and prepares for the market upturn

Héroux-Devtek's strengths are our high-quality products, our competitive cost structure and the financial stability that will allow us to weather the downturn and remain a solid business partner for our customers.

On the quality front, we continue to win recognition from our customers. The Gas Turbine division achieved major quality enhancements during fiscal 2003, earning ISO 9001 certification, and excellent supplier ratings from GE Power Systems and GE Aircraft Engines. In fiscal 2003, The Boeing Company named Héroux-Devtek as one of its certified suppliers.

The markets we serve are highly competitive. To maintain our edge, we must constantly seek new ways of improving our operating performance. In fiscal 2003, the Landing Gear division implemented a "lean manufacturing" program that will allow us to meet our high quality standards at a lower cost. Many other cost reduction initiatives are also in the works. For instance, the Landing Gear division introduced strategic purchasing initiatives in fiscal 2003, including reducing its number of suppliers and signing long-term supplier contracts, thereby generating significant savings.

Our balance sheet continues to reflect our healthy financial condition. At the end of fiscal 2003, our long-term debt-to-equity ratio was 0.51:1, and we had cash and cash equivalents of $53.0 million. This not only provides comfort to our customers but also gives us the flexibility and the means to profit from growth opportunities.

Héroux-Devtek expands its share buyback program

We consider our share buyback program an appropriate use of company funds. In fiscal 2003, we repurchased 934,278 common shares for cancellation purposes. We also received approval to increase the maximum number of shares we could buy to 1,585,700 from the original 1,222,195 shares. The program ends on August 20, 2003.

The Board revises its corporate governance practices to stay on top

Voted by *Canadian Business Magazine* one of Canada's 25 best boards last year for the second year running, our Board of Directors demonstrated yet again its strong commitment to effective corporate governance when it instituted several changes during fiscal 2003. We revised our corporate governance guidelines and practices to ensure that they remain up-to-date and continue to meet evolving market and investor expectations. More particularly, the Board approved a revised charter for the audit committee. The mandate of the audit committee now calls for all members to be unrelated to Héroux-Devtek and have a basic knowledge of financial matters, with at least one member having accounting or financial expertise.

Héroux-Devtek's commitment to transparency and rigorous financial reporting is further reflected in an expanded, more complete, and simplified discussion and analysis of our annual financial results, which begins on page 9 of this annual report.

Héroux-Devtek is acting to stay profitable through the challenging year ahead

Héroux-Devtek is taking the measures required to improve profitability through another year marked by economic challenge. The impact of our consolidation moves will begin to be felt around mid-year. We are pushing ahead with our lean manufacturing and other cost reduction initiatives. And our ongoing drive to specialize our plants will itself result in cost efficiencies.

The civil aerospace and power generation markets we have relied on in recent years are not going to recover this year. Nevertheless, in every crisis lies opportunity. Already, we are seeing our share of the military and aircraft engine markets improve as smaller, more fragile suppliers disappear. Military spending remains strong and should grow. New technologies such as wind power are also emerging.

We rely on the support of our employees, shareholders and customers

In times like these, the support of all players on the team is not only appreciated, it is essential. We thank our employees, managers and directors for pulling together to meet the challenges that we currently face. We are grateful for the good relations we have with our business partners. And we thank our shareholders for sharing our vision of a bright future ahead.

On behalf of the Board of Directors,

Gilles Labbé
President and Chief Executive Officer

Helmut Hofmann
Chairman of the Board

Corporate Governance

Corporate governance refers to the process and structure used to direct and manage the business and affairs of the Company in the interest of its shareholders, while taking into account the interests of other stakeholders, such as employees, customers, suppliers and the community in general.

Héroux-Devtek believes that sound corporate governance is essential to the creation and maintenance of lasting shareholder value. It is proud that its Board of Directors was named one of Canada's 25 best boards by *Canadian Business Magazine* in 2001 and 2002. Héroux-Devtek's Board of Directors is strongly committed to effective corporate governance and follows best practices in accordance with the requirements of the Toronto Stock Exchange corporate governance guidelines.

Héroux-Devtek intends to remain at the forefront of good corporate governance. The Board of Directors reviewed its corporate governance practices in fiscal 2003 to ensure that they remain up-to-date and meet with evolving market and investor expectations. The Board will continue to regularly review and amend its practices to ensure they remain consistent with the TSX Guidelines and corporate governance best practices.

The Board of Directors

Composition: The number of Directors on the Board was reduced from eleven to seven in fiscal 2003 to improve its effectiveness as a decision-making body. All the Directors, except Mr. Gilles Labbé, as President and CEO, qualify as "unrelated" Directors. An unrelated Director is a Director who is independent of management and free from any interest that might interfere with his or her ability to act in the best interests of the Company.

Mandate: The Board is responsible for the stewardship of the Company. It relies on the Company's officers to manage the Company, then monitors management's achievement of the Company's goals and objectives.

Responsibilities: The Board is responsible for the Company's strategic plan, communications policy and internal control and management information systems. It must also identify the principal risks of the business and find ways to manage them, and plan for the succession of senior management.

Committees of the Board

The Human Resources and Corporate Governance Committee

Composition: The Human Resources and Corporate Governance Committee is composed of the Chairman of the Board and two other unrelated Directors.

Mandate: The Human Resources and Corporate Governance Committee reviews the Company's organizational structure to determine if such structure is appropriate to carry out the business of the Company.

Responsibilities: The Human Resources and Corporate Governance Committee assists the Board in discharging its responsibilities by:

- monitoring the effectiveness of the Board (including its size, composition, and committees), and the performance of the Directors
- identifying and recommending potential Directors
- reviewing the levels and form of total compensation paid to the Company's senior employees
- reviewing succession planning for senior management
- administering the Company's stock option plan and incentive plan
- reviewing and monitoring management development programs
- monitoring the Company's corporate governance systems

Audit Committee

Composition: In fiscal 2003, the Board of Directors approved a revised charter for the Audit Committee that stipulates that all its members must be unrelated Directors, with a basic knowledge of financial matters, and that at least one member must have related accounting or financial expertise. The Audit Committee presently has three members.

Mandate: The Audit Committee plays the important role of monitoring the control environment and the integrity of the management information systems, to ensure that these systems are producing accurate information.

Responsibilities: The Audit Committee assists the Board in its general management responsibilities by:

- selecting the external auditors and reviewing their independence and effectiveness
- reviewing the Company's quarterly and annual financial statements and certain other public disclosure documents and making recommendations to the Board with respect to such statements and documents
- reviewing the processes for presenting financial information
- discussing and reviewing specific issues with the auditors as appropriate via direct communication channels
- reviewing the nature and scope of the annual audit as proposed by the auditors and management
- reviewing with management the risks inherent in the Company's business and the control methods for managing these risks

transition

A World in Transition

In the wake of the large-scale corporate failures and financial scandals of 2002, companies and regulators worldwide are struggling to regain investor confidence. Investors are becoming increasingly critical, and management and board members face greater scrutiny as regulators endeavour to enforce new rules to avoid future transgressions.

Héroux-Devtek is committed to the highest standards of financial transparency and corporate integrity. As a part of this commitment, we are providing a new, more investor-oriented discussion and analysis of our annual financial results that clearly sets out who we are, how we think, what we have done and where we are headed.

Management's Discussion
and Analysis of Financial Position and Operating Results

The purpose of this analysis is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2002 and March 31, 2003. It also compares the operating results and cash flows for the 12-month period ended March 31, 2003 to those for the same period the previous year. This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2003.

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including management's assessment of future plans and operations, certain statements in this management discussion and analysis are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Company's actual performance to differ materially from those expressed in or implied by such forward-looking statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and U.S. standard setters. Some of these factors are further discussed under Risks and Uncertainties in this management discussion and analysis.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it on the date such forward-looking statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

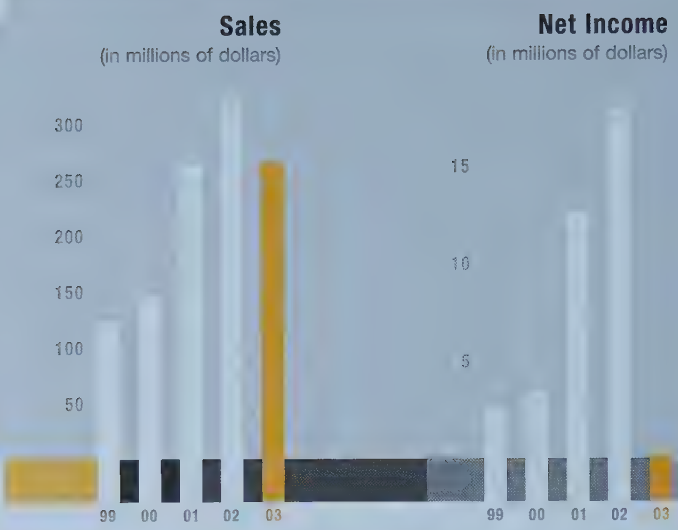
Overview

General

Héroux-Devtek designs, develops, manufactures and repairs systems and components for the aerospace and industrial sectors. Its primary products are landing gear, aircraft structural components and components for aircraft and industrial gas turbines.

The Company was founded in 1942 as Héroux Machine Parts Limited, and later changed its name to Héroux Inc. The Company became public in 1986. In 2000, it acquired Devtek Corporation and the two entities were merged to form Héroux-Devtek Inc., one of the largest second-tier manufacturers in the Canadian aerospace industry.

Héroux-Devtek serves two main market segments: aerospace & defence, and the industrial market. The Company provides the commercial aerospace market with landing gear, airframe structural components and aircraft engine components for business jets and regional jets (less than 100 passengers) and large commercial jets (more than



100 passengers). It also manufactures military aircraft landing gear and supplies parts and repair and overhaul services for military aircraft landing gear. Products for the defence side of the market consist of small arms and related equipment provided to the governments of Canada and other NATO countries.

Héroux-Devtek's main product for the industrial market is large components for gas turbines that generate electricity, with its largest customer being The General Electric Company. It also sells precision components for other industrial applications. The Company's sales by segment are as follows:

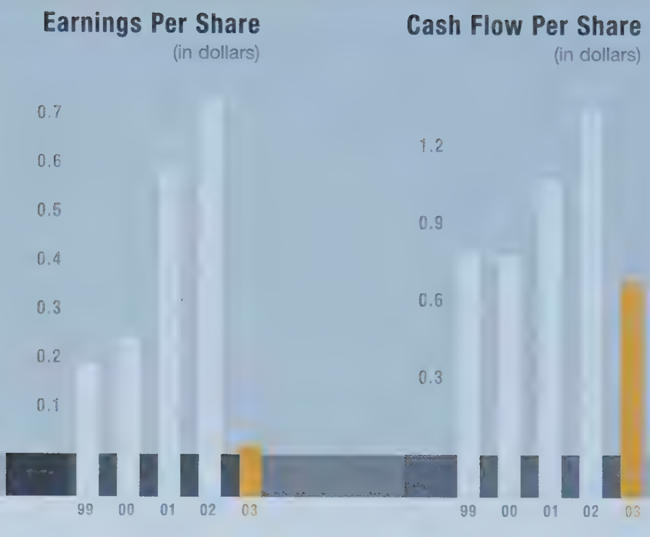
	2003	2002
Aerospace & Defence	**88 %**	80 %
Industrial	**12 %**	20 %
	100 %	100 %

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as GE, Bombardier and Boeing, and into the aftermarket, where its main customers are the U.S. Air Force and Navy. In fiscal 2003, sales to these main customers represented approximately 65% of the Company's total sales.

Héroux-Devtek is structured around four divisions: landing gear, aerostructure, gas turbine components, and logistics & defence. The Landing Gear Division designs, manufactures, repairs and overhauls landing gear and has built a strong and recognized design engineering team. The Aerostructure Division manufactures very large airframe components. While they continue to report as separate divisions, landing gear and aerostructure were grouped under a single management team in the fall of 2002 to take advantage of operating and administrative synergies. The Gas Turbine Components Division manufactures aircraft engine components and large components for the power generation and other industrial markets. Logistics & Defence manufactures small arms for the defence market. Each division is assigned responsibility for its own market development and operating results in order to foster entrepreneurship and employee involvement. The Company's corporate head office provides support to the divisions and retains responsibility for such areas as global strategic development, financing, legal counsel, human resources and public relations.

Business Strategy

Héroux-Devtek's business strategy is to position itself as a key supplier for its customers in the three pillars of its business: landing gear, aerostructure and gas turbines. For the Company, being a key supplier means providing not only manufactured components but also other services such as design, assembly and program management in order to become a complete service provider and allow customers to focus on their core business. In order to achieve this, the Company aims to develop management and technical expertise so as to add value to products at competitive costs. It also seeks to grow to attain a critical mass in each of its market segments, while maintaining a solid financial position.



In practice, this translates into:

- A focused factory approach, with each plant specializing in a specific type of component;
- Standard, compatible information systems;
- Migration of technical and managerial know-how between divisions;
- A lean manufacturing approach in all its plants; and
- Revenue stability through long-term agreements with its customers.

Héroux-Devtek pursues both external and internal growth. It seeks external growth through acquisitions that can be easily integrated into its existing operations or that bring complementary technology leading to greater added value. For internal growth, the Company looks to:

- Develop valued-added, proprietary products through design engineering;
- Establish or enhance its presence in certain product markets, such as the after-market repair and overhaul of commercial and military landing gear, design and manufacturing of small landing gear, and large structural assemblies for commercial and military aircraft OEMs; and
- Diversify the customer base for its existing product lines, which generally means finding new OEM customers for its landing gear, airframe structural and aircraft engines components.

Key Performance Indicators

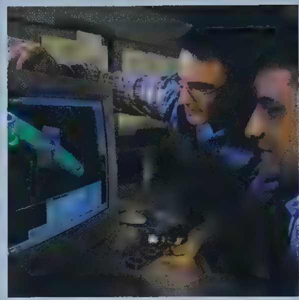
Héroux-Devtek measures its performance on a company-wide basis through key financial indicators that include sales, gross profit, EBITDA, operating income, working capital, long-term debt-to-equity ratio, and earnings per share. These items are discussed in the appropriate sections under Operating Results, below.

Management also tracks the performance within each division through certain indicators related to operations. These include Return On Net utilized Assets ("RONA"), backlog, value-added as a percentage of sales, percentage of on-time deliveries, non-quality costs, attainment of cost reduction targets, and production capacity utilization.

Market Trends

In the aerospace industry, there is a broad trend toward OEMs outsourcing manufacturing activities. OEMs are buying more components from increasingly fewer suppliers. They are tending to buy kits for assembly and large sub-assemblies, and to reduce their manufacturing activities in order to concentrate on design and marketing. OEMs are also tending to source their products in lower-cost countries. This is expected to be an ongoing trend.

Within these broader trends, the commercial aerospace market has been in a downturn since 2001. Large aircraft orders are still declining, with Boeing's production alone slashed by 50% in the past two years. Cash flow is still a major issue for airlines, which will continue to maintain pressure on aircraft manufacturers and engine producers, as airline earnings underlie orders for new aircraft. Furthermore, ongoing security concerns and their impact on air travel continue to cloud industry forecasts. Analysts are currently calling for the sector to recover in 2006 on the basis of a typical aerospace cycle of six to nine years.



On the positive side, the airlines are expected to emerge stronger from the industry's restructuring brought on by their financial situation. This was demonstrated on May 12, 2003, when US Airways announced that it had awarded Bombardier Aerospace a contract to build up to 275 regional jets. This also exemplifies what is expected to be a growing trend toward the use of regional jets by major airlines as pilots' unions reluctantly agree to relax the ceiling on the number of regional jets the airlines can use.

The downturn in the aerospace industry also means that competition is fiercer at the supplier level. While this puts pressure on margins, it also leads to supplier consolidation. Given its size and stable financial condition, Héroux-Devtek stands to benefit from consolidation, while smaller suppliers are at risk and may become acquisition opportunities.

The business jet market is currently depressed and is not expected to turn around until after the U.S. economy picks up, possibly in 2005. Nonetheless, sales remain higher than prior to 1999, and new product developments announced in September 2002 signal OEM confidence in the market.

In the interim, regional airlines remain strong, with a 31% increase in air traffic (measured in revenue passenger miles) from 2001 to 2002.

The military market also remains strong. The total U.S. Defence budget is expected to increase by 31% to US$503 billion from 2003 to 2009. This represents a departure from the spending slowdown of the post cold war era. While budgets for military programs are subject to political climate, the need to modernize military fleets appears to be of high priority.

Several military programs for manned and unmanned vehicles are at various stages of development. Fighter programs such as the F-22, F18 E/F and JSF are moving forward, with a fiscal year 2004 budget of $US13 billion for the three programs alone.

A strong interest is also clearly emerging in unmanned aircraft vehicle ("UAV") and more specifically in unmanned combat aircraft vehicle ("UCAV") whom objectives are to replace fighter aircraft. The U.S. military is also contemplating replacing its aging fleet of tanker aircrafts.

On the industrial side, the power generation market is also in a downturn. This was reflected in a significant drop in power system orders booked by Héroux-Devtek's main customers in fiscal 2003, and the resulting 53% decrease in its industrial deliveries for the year. This market is not expected to recover before 2006. However, wind energy is proving a fast growing power sector worldwide, surpassing the $6 billion mark in 2001 and growing 15-20% annually, as countries try to bring down greenhouse gas emissions. In Germany, the largest wind power market ahead of the United States and Spain, the number of installed wind turbines rose 22% in 2002. This sector represents a market opportunity that Héroux-Devtek is currently assessing.

Results of Operations

Consolidated Sales

Consolidated sales for the year ended March 31, 2003 were $260.6 million, down 17.6% from sales of $316.3 million for fiscal 2002.

Sales rose slightly for the Aerostructure Division, but declined for the Company's other divisions, as shown in the following table:

Division	2003 ($'000)	2002 ($'000)	% Change
Landing Gear	**161,252**	174,534	-7.6
Aerostructure	**23,986**	23,503	+2.1
Sub-total	**185,238**	198,037	-6.5
Gas Turbine Components	**52,486**	89,370	-41.3
Logistics & Defence	**22,907**	28,873	-20.7
Total	**260,631**	316,280	-17.6

Landing Gear and Aerostructure Divisions

During fiscal 2003, the Aerostructure Division was restructured so that it is now under the responsibility of the Landing Gear Division, which shares the same customer and supplier base. This will allow the Aerostructure Division to benefit from the established purchasing, quality, engineering and sales and marketing capabilities of the Landing Gear Division, and enhance the product offering to customers of both divisions.

Landing Gear

The decline in landing gear sales overall reflects the slowdown in the large civil aerospace sector and reduced demand for spare parts for out-of-production aircraft.

As shown in the following table, the weighting of landing gear sales for 2003 shifted slightly from the commercial toward the military sector, and from manufacturing toward repair and overhaul products and services.

Division	2003 ($'000)	2002 ($'000)	% Change
Military	**78,239**	72,147	+8.4
Commercial	**83,013**	102,387	-18.9
Total	**161,252**	174,534	-7.6
Manufacturing	**122,027**	138,316	-11.8
Repair and overhaul	**39,225**	36,218	+8.3
Total	**161,252**	174,534	-7.6

It should be noted that the Landing Gear Division is continuing to build its engineering department, with new engineering sales of $3.5 million in fiscal 2003. It also moved to consolidate its operations in 2002-2003 by transferring its DALS operations into its Kitchener operations, a process that is now complete. Furthermore, the Landing Gear Division successfully renewed a three-year labour agreement with unionized employees at its Longueuil facilities in April 2002.

Given the prevailing circumstances in the aerospace industry, it will be a challenge for the Company to maintain its landing gear business volume for the current year. The Company is presently in the bidding process for the repair and overhaul of aircraft landing gear contract with the U.S. Air Force, valued at approximately $12 million on an annual basis, for which a decision should be made by the customer in the summer of 2003.

Aerostructure

As mentioned above, aerostructure sales rose slightly in fiscal 2003 compared to the previous year, reflecting an increase in market share in the regional jet business. This occurred despite certain manufacturing inefficiencies and rework that impacted deliveries in the last six months of the fiscal year. The situation has been rectified, and deliveries were back on schedule in the last quarter of fiscal 2003.

The Aerostructure Division is in the process of installing a second large piece of equipment at its Dorval plant. Without taking into account this installation, scheduled for completion by the end of June 2003, the current capacity utilization of the Dorval facility was approximately 50% at March 31, 2003. With the goal of increasing capacity utilization, improving efficiency and reducing manufacturing overhead costs, the division is transferring its Metro unit to its Dorval facility in the first half of the current year. This transfer is in line with the Company's strategy of creating centers of excellence.

Although the aerospace industry as a whole is depressed, the regional jet business remains solid. If this situation holds, the Company expects its aerostructure sales to grow in the current year.

Gas Turbine Components

Sales for the Gas Turbine Components Division fell sharply in fiscal 2003. While this was due primarily to unprecedented cancellation of domestic power gas turbine orders, the division also saw sales in its other sectors slip, as shown below.

	2003 ($'000)	2002 ($'000)	% Change
Aerospace	**21,051**	25,948	-18.9
Industrial Gas Turbine	**26,891**	58,382	-53.9
Other Industrial	**4,544**	5,040	-9.8
Total	**52,486**	89,370	-41.3

Industrial gas turbine components alone accounted for $31.5 million of the total $36.9 million drop in year-over-year sales. The industrial gas turbine sector is not expected to turn around before 2006. In reaction to this, the Company initiated the process of consolidating its gas turbine component production by merging its Tampa operations into its Cincinnati business unit. Scheduled for completion by the end of the second quarter of the current year, this consolidation resulted in a $9.2 million restructuring charge and goodwill impairment against earnings for fiscal 2003.

Sales of aircraft engines parts declined during the year due to order push-outs and weaker demand in the civil aerospace products in general. However, the Company expects its share of the aircraft engine parts market to rise in fiscal 2004.

Logistics & Defence

Sales for the Logistics & Defence division fell 20.7% in fiscal 2003 to $22.9 million from $28.9 million a year earlier, due to the completion last year of a large accessories distribution contract. The reduction in sales from this contract was partially compensated by increased sales of manufactured products to Norway.

Based on current backlog, the Company expects to maintain its Logistics & Defence business volume in fiscal 2004 at last year's level.

Sales by Segment

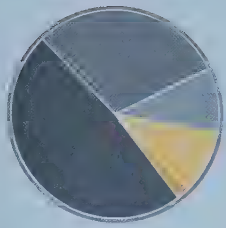
The Company's sales by segment and destination were as follows:

Segment	2003 ($'000)	2002 ($'000)	% Change
Aerospace & Defence			
Civil	**123,982**	145,809	-15.0
Military	**78,784**	76,131	+3.5
Defence	**26,430**	30,918	-14.5
Sub-total	**229,196**	252,858	-9.4

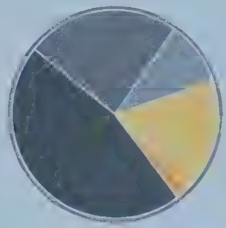
Breakdown of Sales by Sector

Aerospace & Defence 88 %
- Civil 48 %
- Military 30 %
- Defence 10 %

Industrial Products 12 %
- Gas Turbines 10 %
- Other Parts 2 %



2003



2002

Aerospace & Defence 80 %
- Civil 46 %
- Military 24 %
- Defence 10 %

Industrial Products 20 %
- Gas Turbines 18 %
- Other Parts 2 %

Segment	2003 ($'000)	2002 ($'000)	% Change
Industrial			
Gas Turbine Components	**26,891**	58,382	-53.9
Other Industrial	**4,544**	5,040	-9.8
Sub-total	**31,435**	63,422	-50.4
Total	**260,631**	316,280	-17.6

Destination	2003	2002
Canada	**27.3 %**	26.3 %
US	**64.7 %**	64.2 %
International	**8.0 %**	9.5 %
	100 %	100 %

Civil Aerospace sales dropped by 15%, mainly due to sustained reduction in demand for large civil aerospace products and out-of-production aircraft parts. Military aerospace sales remained strong, however, with a 3.5% increase.

Industrial sales decreased by 50% due to significant reduction in industrial power generation market.

New Major Sales Contracts

During fiscal 2003, the Company announced several major sales contracts.

The Landing Gear Division was chosen by The Boeing Company to design the landing gears for the X-45 Unmanned Combat Air Vehicule (UCAV) aircraft, being developed for the U.S. Defence Advanced Research Project Agency and Air Force. The first phase of the program is scheduled to take place over 18 months and will involve the design of the first prototypes.

During the year, the Landing Gear Division also reported $71.7 million in new military contracts. These new orders involve the manufacture of landing gear components for the C-5, KC-135, P-3, C130 and F-16 programs, and will be delivered mainly in the next two years.

The Gas Turbine Components Division was selected by G.E. Aircraft Engines to manufacture components for the J85, GE90 and F414 engines. The total value of the contracts is estimated at $30.7 million and is based on deliveries that will take place through 2007.

Gross Profit

Consolidated gross profit decreased from 18.0% in fiscal 2002 to 12.4% in fiscal 2003.

Landing Gear

An increase in deliveries to $45 million in the fourth quarter of fiscal 2003 had a favourable impact on gross profit for the year, improving the absorption of fixed manufacturing overhead costs. In addition, the Company wrote off $1.5 million in development cost support program funding consisting of non-interest bearing debt, as the conditions under which repayment is required have not been met. This write-off was fully included under cost of sales as it was related to assets that had already been fully depreciated. Consequently, gross profit for fiscal 2003 remained steady at fiscal 2002 levels.

Aerostructure

Expressed as a percentage of sales, gross profit for the Aerostructure Division decreased by 7.5% in fiscal 2003 compared to fiscal 2002, impacted by the aforementioned manufacturing inefficiencies and rework in the last six months of the year. These factors, combined with a low capacity utilization, reduced deliveries and gross profit below expected levels for 2002-2003. Given the normalization of the delivery schedule in the last quarter of the fiscal year and the potential to increase capacity utilization once the new equipment now being installed is up and running, throughput and margins should improve in the current fiscal year as the Company gains market share in the niches it serves.

Gas Turbine Components

Gross profit for the Gas Turbine Components Division declined 25.4% in fiscal 2003, in part due to the significant reduction in business volume, particularly in industrial gas turbines. While operations in this division are being consolidated, the effect will not be seen until after the transition period. In the interim, the Company is incurring significant unabsorbed manufacturing overhead costs, and recorded a one-time restructuring charges and goodwill impairment of $9.2 million (see under Restructuring Charges and Goodwill Impairment below).

Logistics & Defence

Gross profit for the Logistics & Defence Division increased by 1.3% due to a higher manufacturing sales content.

Restructuring Charges and Goodwill Impairment

On the basis of the significant reduction in demand in the industrial gas turbine market, the economic environment in the United States and the Company's manufacturing capacity utilization, management took steps in fiscal 2003 to consolidate production and reduce its fixed manufacturing and general overhead costs. Héroux-Devtek is closing its gas turbine components manufacturing plants in Tampa and transferring production to its plants in Cincinnati. In an effort to minimize the impact on customer deliveries, the Company has provided for a six-month transition period.

In order to account for the closure of the Tampa plants, the Company recorded $9.2 million in restructuring charges and goodwill impairment in fiscal 2003 to provide for the following:

- The write-down of capital assets to be disposed of;
- Provisions for unused leased equipment;
- Goodwill impairment related to the industrial gas turbine business; and
- Other related direct expenses necessary to the realization of the restructuring plan.

Management decided to account for goodwill impairment related to the Company's Gas Turbine Components Division due to the significant reduction in industrial gas turbine business volume. The goodwill impairment represents an amount of $2.1 million less $0.9 million due to the write-off of related unused accrued liabilities recorded at the time this division was acquired.

Consequently, the one-time restructuring charges and goodwill impairment taken in fiscal 2003 consist of the following:

	2003 ($'000)
Restructuring charges recorded in the third quarter	**7,376**
Restructuring charges in the fourth quarter that could not be accounted for in the third quarter under Generally Accepted Accounting Principles	**595**
Goodwill Impairment – net	**1,206**
Total restructuring charges and goodwill impairment	**9,177**

The impact of these restructuring charges and goodwill impairment on net income represents $6.5 million, net of income taxes.

Selling and Administrative Expenses

For reporting purposes, selling and administrative expenses will henceforth include research and development expenses. The selling and administrative expense figure for fiscal 2002 has been restated to reflect this.

As a percentage of sales, fiscal 2003 selling and administrative expenses were comparable to last year's figures, as shown below:

	2003	2002
Selling and administrative expenses ($'000)	**21,339**	25,788
% of sales	**8.2**	8.2

Selling and administrative expenses for fiscal 2003 include $81,000 in expenses for the granting of stock options following the decision by the Company to expense the cost of stock options. No such expenses were recorded in fiscal 2002. The Company also granted 12,500 stock appreciation rights to its non-employee directors during fiscal 2003. Stock appreciation rights are expensed on an earned basis and their costs are determined based on the excess of the quoted market value of the Company's common shares over their granted value. No expense was recorded for stock appreciation rights in either fiscal 2003 or 2002.

Operating Income

The table below shows operating income for the Company's two market segments. Operating income for fiscal 2003 does not include the one-time restructuring charge and goodwill impairment of $9.2 million.

	2003			2002		
	Sales ($'000)	Operating Income (Loss) ($'000)	Operating Income (Loss) (% of sales)	Sales ($'000)	Operating Income ($'000)	Operating Income (% of sales)
Aerospace & Defence	**229,196**	**17,625**	**7.6 %**	252,858	22,487	8.9 %
Industrial	**31,435**	**(6,589)**	**(21.0) %**	63,422	8,607	13.6 %
Total	**260,631**	**11,036**	**4.2 %**	316,280	31,094	9.8 %

Expressed as a percentage of sales, operating income for the Aerospace & Defence sector dropped 1.3% from 8.9% in fiscal 2002 to 7.6% in 2003. This reduction was mainly due to a 3.5% drop in civil aerospace operating income while military aerospace & defence operating income was similar to last year's level.

Operating income for the Industrial sector dropped 34.6%, essentially in relation to the decline in industrial gas turbine demand.

In total, operating income declined 5.6% to 4.2% in fiscal 2003 from 9.8% in 2002.

Financial Expenses

Financial expenses amounted to $2.0 million for fiscal 2003 compared to $2.2 million last year.

Financial expenses for fiscal 2002 included $690,000 in interest adjustments related to early repayment of long-term debt following the implementation of the new syndicated loans (see Note 11).

Income Taxes

In fiscal 2003, the Company recorded an income tax recovery of $281,000 compared to an income tax provision of $10.1 million in fiscal 2002, equivalent to a rate of 35% on income before income taxes and goodwill amortization.

This year's tax recovery was mainly impacted by a favourable future income tax adjustment of $600,000 and by the permanent non-deductibility for tax purposes of the $1.2 million goodwill impairment included in the restructuring charges and goodwill impairment (see Note 15).

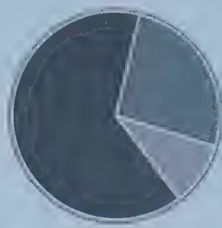
Net Income

The following table shows net income before and after adjusting for the one-time restructuring charges and goodwill impairment taken in fiscal 2003. It also shows earnings per share on a fully diluted basis, before and after adjusting for the restructuring charges and goodwill impairment. Earnings per share, both basic and diluted, are based on a weighted-average of 24,212,864 common shares outstanding in fiscal 2003. In fiscal 2002, they were based on weighted-average of 24,063,038 and 24,345,504 common shares outstanding respectively, for basic and diluted earnings per share.

	2003		2002	
	($'000)	Per share fully diluted	($'000)	Per share fully diluted
Net income before restructuring charges, net of income taxes	**6,621**	**$ 0.28**	17,424	$ 0.72
Restructuring charges and goodwill impairment, net of income taxes	**(6,467)**	**(0.27)**	–	–
Net income	**154**	**$ 0.01**	17,424	$ 0.72

Geographic Sales Breakdown (Destination)

2003



2002

Liquidity and Capital Resources

At March 31, 2003, the Company had cash and temporary investments of $53 million, compared to $56 million at March 31, 2002.

In March 2003, the Company extended its $100 million Unsecured Syndicated Evergreen Revolving Credit Facilities, of which $36.5 million was used at March 31, 2003 (see Note 13). These facilities can be used to support the Company's operations, future acquisitions and foreign exchange risk.

Operating Activities

The Company's operating activities provided cash flow as follows:

	2003 ($'000)	2002 ($'000)
Cash flow from operations	**16,003**	32,101
Net change in non-cash items related to operations	**733**	(4,103)
Cash flow provided by operating activities	**16,736**	27,998

In fiscal 2003, cash flow from operations was negatively impacted mainly by a $17.3 million reduction in net income compared to last year, which includes $4.0 million in cash items included in the restructuring charges (see Note 3). The net change of $2.9 million in future income taxes also negatively impacted the Company's cash flow from operations, and was partially related to operating losses in the Gas Turbine Components Division.

However, cash flow provided by operating activities was positively impacted in fiscal 2003 by a favourable net change in non-cash items related to operations of $0.7 million compared to an unfavourable net change of $4.1 million last year (see under Consolidated Balance Sheet below and Note 16).

Investing Activities

In fiscal 2003, investing activities used cash flow of $17.5 million compared to $32.4 million last year.

Purchase of capital assets totalled $23.5 million in fiscal 2003 compared to $30.3 million last year, with $8.1 million and $7.4 million of these amounts respectively financed through capital leases. Of the total capital expenditures, $9.3 million was invested in the Aerostructure Division, consisting of $7.1 million in new large equipment and $2.2 million in other machinery and equipment. These expenditures were made to increase production capacity so as to gain market share in the regional jet market. An additional $8.6 million was invested in the Landing Gear Division and $5.5 million in the Gas Turbine Components Division.

In fiscal 2003, net change in temporary investments used cash flow of $2.9 million, compared to $8.6 million last year.

In the current year, the Company will reduce its investments in capital assets to approximately $15 million. This amount includes about $5 million for the first phase of modernization of the plating department at the landing gear facility in Longueuil. This modernization will be implemented over the next three fiscal years.

Financing Activities

In fiscal 2003, financing activities used cash flow of $3.9 million compared to a cash inflow of $10.5 million last year.

Cash flow of $4.6 million was generated in fiscal 2003 through an increase in long-term debt, compared to $42.4 million last year. This year's amount consists mainly of $3.2 million in new non-interest bearing loans and a $1.1 million sale-and-leaseback arrangement relating to machinery and equipment for the Aerostructure Division. In fiscal 2002, following the restructuring of the Company's bank credit facilities, $40.6 million in new long-term debt was used to repay $13.3 million in bank loans and $27.3 million in other long-term debt. The remaining increase in long-term debt last year essentially represented a new $1.7 million non-interest bearing loan.

In fiscal 2003, repayment of the long-term debt used cash flow of $4.1 million compared to $32.4 million last year. Last year, the Company also used $10.2 million in cash flow to repay its bank loans.

In August 2002, the Company obtained TSX approval for the repurchase of up to 1,222,195 common shares during the 12-month period ending on August 20, 2003. In May 2003, the Company obtained TSX approval to increase the number of common shares to be repurchased during that period to 1,585,700 shares. At March 31, 2003, the Company had repurchased a total of 934,278 common shares for a cash consideration of $4.5 million. The excess of the cost of the repurchased common shares over their average book value amounted to $1.7 million and was accounted for in reduction of the Company's retained earnings.

The balance of the cash flow generated by financing activities in fiscal 2003 was from the issuance of 35,000 common shares related to the exercise of stock options for a cash consideration of $189,000. In fiscal 2002, the exercise of stock options accounted for the issuance of 152,250 common shares for $843,000. The Company also issued 1,000,000 common shares last year through a private placement for net proceeds of $9.9 million.

Capital Assets

Once the restructuring of the Company's U.S. operations and the transfer of its Metro Machining operations to its Dorval facilities is completed, certain capital assets will be disposed of. The value of these surplus capital assets at March 31, 2003 is shown in the table below, net of their write-down.

Capital Assets (cont.)

	March 31, 2003	
	Cost ($'000)	Net book value ($'000)
Land and buildings for resale	7,714	3,816
Machinery and equipment for resale	16,748	733
	24,462	4,549

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2003 and March 31, 2002:

Item	Change ($ million)	Explanation
Cash and temporary investments	(3.0)	See statement of cash flows.
Accounts receivable	(11.0)	Related to reduced business volume and an enhanced accounts receivable collection effort in fiscal 2003.
Income tax receivable	3.8	Represents an income tax recovery related to losses incurred in the Gas Turbine Components Division.
Inventories	(2.5)	Related to reduced business volume in fiscal 2003 and improved inventory management in the Aerostructure and Logistics & Defence Divisions.
Other assets	(0.8)	Mainly due to early collection of preferred shares representing a balance of sale for a subsidiary disposed of in 1999.
Goodwill	(2.1)	Goodwill impairment related to the Gas Turbine Components Division.
Accounts payable and accrued liabilities	(1.8)	Reduction related to reduced business volume and the related inventory, and the write-off of $0.9 million in accrued liabilities related to goodwill referred to above. See also Note 3.
Customers' advance	(2.2)	See Note 10.
Long-term debt (including current portion)	2.4	• Increase of $4.6 million in new long-term debt. • $8.1 million in new capital leases for equipment. • Write-off of $1.5 million in non-interest bearing debt not requiring repayment under current market conditions. • Capital repayments of $4.1 million. • Repayment of $2.5 million in immigrant loans using related investments. • Favourable exchange rate variation of $2.2 million.
Capital stock	(2.6)	Represents mainly the repurchase of 934,278 common shares at average book value during fiscal 2003.
Contributed surplus	0.1	Counterpart of the expense related to the granting of stock options in fiscal 2003.
Cumulative translation adjustment	(1.8)	See Note 14.
Retained earnings	(1.6)	See statement of retained earnings.

The Company continues to enjoy a strong balance sheet, which puts it in an excellent position to benefit from the current economic challenges.

The Company's long-term debt-to-equity ratio was 0.51:1 on March 31, 2003 compared to 0.46:1 on March 31, 2002. At year-end 2003, the balance sheet included cash and temporary investments of $53.0 million, of which $45.2 million was invested in temporary investments. At March 31, 2002, cash and temporary investments stood at $56.0 million, including $42.3 million in temporary investments.

Off-Balance Sheet Items and Commitments

The Company has entered into operating leases for machinery and equipment amounting to $19.2 million as of March 31, 2003. These amounts are mainly repayable over the next five years (see Note 18).

In August 2002, the Company entered into a five-year interest rate swap agreement for an amount of US$10.0 million related to its long-term debt, which fixes the LIBOR interest rate at 4.1% (see Note 4).

At March 31, 2003, the Company also had forward foreign exchange contracts totalling US$60.5 million at an average exchange rate of 1.5063. These contracts related to its export sales and mature at various dates between April 2003 and September 2007 (see Note 4). This compares to US$69.0 million in forward foreign exchange contracts held at March 31, 2002 at an average exchange rate of 1.4889.

Changes in Accounting Policies and New Guidelines

Goodwill Amortization

Effective April 1, 2002, the Company adopted new Canadian Institute of Chartered Accountants (CICA) recommendations on a prospective basis, and therefore ceased amortizing goodwill and adopted the goodwill impairment model introduced by the new rules. The adoption of these new standards had no significant impact on its financial position as at April 1, 2002. Under the previous accounting rules, the goodwill amortization expense for fiscal 2003 would have amounted to $1.3 million.

Stock-Based Compensation

Effective April 1, 2002, the Company also adopted the new CICA recommendations with respect to the granting of stock options and stock appreciation rights on a prospective basis. The Company will henceforth expense the granting of all stock options and stock appreciation rights. This expense is included in selling and administrative expenses, and its counterpart, as to the granting of stock options, is included in the contributed surplus shown in the Company's shareholders' equity and, as to the stock appreciation rights, in the Company's accounts payable and accrued liabilities.

Disclosure of Guarantees

In February 2002, the CICA issued accounting guidelines addressing the disclosures to be made regarding the Company's obligation under certain guarantees issued by it. See Note 18 for details on these disclosures.

Future Changes in Accounting Policies

Effective April 1, 2003, the Company prospectively adopted new CICA recommendations relating to impairment, and disposal of long-lived assets and asset retirement obligations (see Note 2).

Risks and Uncertainties

Héroux-Devtek operates in industry segments that have a variety of risk factors and uncertainties. The Company's business, financial condition and results of operations could be materially adversely affected by any of the risks and uncertainties described below. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be immaterial may also adversely affect its business.

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's three largest customers account for more than half its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Company's results.

Operational Risks

The activities conducted by the Company are subject to operational risks including competition from other businesses, performance of key suppliers, product performance warranty, regulatory risks, successful integration of new acquisitions, dependence on key personnel and reliance on information systems, all of which could affect the ability of the Company to meet its obligations.

General Economic Conditions

Unfavourable economic conditions may adversely affect the business of the Company. For example, the large civil aerospace industry, which represents approximately 15% of the Company's sales, is experiencing considerable turmoil, especially the market for planes with more than 100 seats. Furthermore, the industrial power generation market, which collapsed in 2002, is not expected to recover before 2006. This could adversely affect the Company's financial condition and results of operations. Although long-term growth will likely eventually resume, the timing of that resumption is uncertain, and these sectors will remain cyclical. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Company incurring significant costs associated with temporary layoffs or termination of employees.

Military Spending

Although significant increases in military budgets, particularly in the United States, were announced in the recent years for a period of up to 2009, these expenses are approved by government on a yearly basis and are subject to political climate and changes.

Foreign Currency Fluctuations

The Company is exposed to risks resulting from foreign currency fluctuations arising either from carrying on businesses in Canada in foreign currencies or through operations in the United States. As to its operations in Canada, the Company makes use of derivative financial instruments in order to mitigate these risks.

Liquidity and Access to Capital Resources

The Company requires continued access to capital markets to support its activities. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow generated from operations. Any impediments to the Company's ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Company's financial condition or prospects, could have a material adverse effect on the Company's financial condition and results of operations.

Restrictive Debt Covenants

The contracts governing certain of the Company's indebtedness and syndicated credit facilities contain covenants that, among other things, restrict the Company's ability to:

- sell all or substantially all its assets;
- incur secured indebtedness;
- engage in mergers or consolidations; and
- engage in transactions with affiliates.

These restrictions could impair the Company's ability to finance its future operations or its capital needs, or to engage in other business activities that may be in its interest.

Changing Interest Rates

The Company's profitability may be directly affected by the level of and fluctuations in interest rates. The Company uses derivatives as an integral part of its asset/liability management program to reduce its overall financial risk.

External Business Environment

The Company faces a number of external risk factors, more specifically, general economic conditions, government policies and changing priorities or possible spending cuts by governments.

Warranty Casualty Claim Losses

The products manufactured by the Company are complex and sophisticated and may contain defects that are difficult to detect and correct. Errors may be found in the Company's products after they are delivered to the customer. If so, the Company may not be able to correct such errors. The occurrence of errors and failures in the Company's products could result in warranty claims or the loss of customers. Any claims, errors or failures could have an adverse effect on the Company's operating results and business. In addition, due to the nature of the

Company's business, the Company may be subject to liability claims involving the Company's products or products for which the Company provided services. The Company cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Company will be able to obtain insurance coverage at acceptable levels and cost in the future.

Environmental Matters

The Company's activities are subject to environmental laws and regulations associated with risks to human health and the environment. Changes to these laws and regulations could have a significant adverse effect on the Company's operations and financial situation. The Company monitors these risks through environmental management systems and policies.

Collective Bargaining Agreements

The Company is party to some collective bargaining agreements, which are subject to expiration at various times in the future. If the Company is unable to renew these agreements or others as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances, which could have a material adverse effect on the Company's business.

Outlook

Overall, the Company foresees continued challenges ahead in fiscal 2004. The financial difficulties of the major airlines will maintain pressure on the aerospace industry, and the power generation sector is not expected to turn around in the near term.

In light of this, the Company is pursuing its business strategy in preparation for the eventual upturn in its market segments. It is working to transform its business cost structure by merging operations within its Gas Turbine Components, Landing Gear and Aerostructure Divisions, a process that will also help move Héroux-Devtek toward its goal of creating centres of excellence in the three pillars of its business.

The Company is presently in the bidding process for the repair and overhaul of aircraft landing gear contract with the U.S. Air Force, valued at approximately $12 million on an annual basis, for which a decision should be made by the customer in the summer of 2003.

Selected Quarterly Financial Information

	Total (Audited)	First Quarter (Unaudited)	Second Quarter (Unaudited)	Third Quarter (Unaudited)	Fourth Quarter (Unaudited)
For the fiscal year ended March 31, 2003:					
Sales ($'000)	260,631	69,160	62,299	59,394	69,778
Net income (loss) before restructuring charges and goodwill impairment ($'000)	6,621	3,017	2,890	(1,946)	2,660
Earnings (loss) per share, before restructuring charges and goodwill impairment ($)	0.28	0.12	0.12	(0.08)	0.11
Net income (loss) ($'000)	154	3,017	2,890	(6,814)	1,061
Earnings (loss) per share ($): Basic	0.01	0.12	0.12	(0.28)	0.04
Diluted	0.01	0.12	0.12	(0.28)	0.04
For the fiscal year ended March 31, 2002:					
Sales ($'000)	316,280	78,019	76,225	78,911	83,125
Net income ($'000)	17,424	4,074	4,201	4,620	4,529
Earnings per share ($): Basic	0.72	0.17	0.17	0.19	0.19
Diluted	0.72	0.17	0.17	0.19	0.18

consolidated financial statements

Management's Report

The accompanying consolidated financial statements of Héroux-Devtek Inc. and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Héroux-Devtek Inc.'s policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of outside Directors. The Committee meets periodically with Management and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the consolidated financial statements and the external auditors' report.

The Committee reports its findings to the Board for consideration when it approves the consolidated financial statements for issuance to the Shareholders.

The consolidated financial statements have been audited by Deloitte & Touche LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee.

Gilles Labbé

Gilles Labbé
President and Chief Executive Officer
May 16, 2003

Réal Bélanger

Réal Bélanger
Executive Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholders of Héroux-Devtek Inc.:

We have audited the consolidated balance sheets of Héroux-Devtek Inc. as at March 31, 2003 and 2002 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Montreal, Québec, May 16, 2003

Consolidated Balance Sheets

As at March 31, 2003 and 2002
(In thousands of dollars)

	Notes	2003	2002
Assets			
Current assets			
Cash and temporary investments	5	$ **52,972**	$ 55,966
Accounts receivable		**36,323**	47,340
Income taxes receivable		**3,785**	–
Other receivables		**4,010**	4,301
Inventories	6	**58,650**	61,127
Prepaid expenses		**2,212**	2,114
Future income taxes	15	**5,930**	4,730
		163,882	175,578
Capital assets, net	7,11	**97,397**	95,260
Other assets	8	**962**	1,720
Future income taxes	15	**4,766**	2,919
Goodwill, net	3	**22,060**	24,160
		$ **289,067**	$ 299,637
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	$ **73,115**	$ 74,962
Customers' advances	10	**3,912**	6,123
Income taxes payable		**1,275**	3,919
Future income taxes	15	**380**	720
Current portion of long-term debt	11	**3,340**	5,075
		82,022	90,799
Long-term debt	11	**63,650**	59,565
Other liabilities	12	**7,348**	7,938
Future income taxes	15	**11,128**	10,534
		164,148	168,836
Shareholders' Equity			
Capital stock	13	**71,317**	73,958
Contributed surplus	13	**81**	–
Cumulative translation adjustment	14	**1,803**	3,560
Retained earnings		**51,718**	53,283
		124,919	130,801
		$ **289,067**	$ 299,637

Commitments and contingencies (Notes 18, 19)
The accompanying notes are an integral part of these consolidated financial statements.

Signed on behalf of the Board

Alain Cousineau

Alain Cousineau
Director

Gilles Labbé

Gilles Labbé
Director

Consolidated Statements of Income

For the years ended March 31, 2003 and 2002
(In thousands of dollars, except per share data)

	Notes	2003	2002
Sales		$ 260,631	$ 316,280
Cost of sales		213,749	247,570
Amortization		14,507	11,828
Gross profit		32,375	56,882
Selling and administrative expenses		21,339	25,788
Operating income		11,036	31,094
Financial expenses	11	1,986	2,228
Income before restructuring charges and goodwill impairment, income taxes and goodwill amortization		9,050	28,866
Restructuring charges and goodwill impairment	3	9,177	–
Income (loss) before income taxes and goodwill amortization		(127)	28,866
Income taxes (recovery)	15	(281)	10,098
Income before goodwill amortization		154	18,768
Goodwill amortization		–	1,344
Net income		$ 154	$ 17,424
Earnings per share before goodwill amortization		$ 0.01	$ 0.78
Earnings per share before goodwill amortization – fully diluted		$ 0.01	$ 0.77
Earnings per share		$ 0.01	$ 0.72
Earnings per share – fully diluted		$ 0.01	$ 0.72
Weighted-average number of shares outstanding during the year		24,212,864	24,063,038

Consolidated Statements of Retained Earnings

For the years ended March 31, 2003 and 2002
(In thousands of dollars)

	Notes	2003	2002
Balance at beginning of year		$ 53,283	$ 35,859
Repurchase of common shares	13	(1,719)	–
Net income		154	17,424
Balance at end of year		$ 51,718	$ 53,283

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2003 and 2002
(In thousands of dollars)

	Notes	2003	2002
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		**$ 154**	$ 17,424
Items not requiring an outlay of cash			
Amortization		**14,778**	13,516
Future income taxes	15	**(2,940)**	1,353
Loss (gain) on sale of capital assets		**251**	(192)
Write-down of capital assets	3	**3,937**	–
Goodwill impairment	3	**1,206**	–
Write-off of loans bearing no interest	11	**(1,464)**	–
Stock-based compensation	13	**81**	–
Cash flow from operations		**16,003**	32,101
Net change in non-cash items related to operations	16	**733**	(4,103)
Cash and cash equivalents provided by operating activities		**16,736**	27,998
Investing activities			
Net change in temporary investments		**(2,941)**	(8,578)
Purchase of capital assets		**(15,438)**	(22,925)
Proceeds on disposal of capital assets		**509**	295
Other		**375**	(1,171)
Cash and cash equivalents used for investing activities		**(17,495)**	(32,379)
Financing activities			
Net change in bank loan		**–**	(10,162)
Increase in long-term debt		**4,632**	42,372
Repayment of long-term debt		**(4,140)**	(32,447)
Repurchase of common shares	13	**(4,549)**	–
Issuance of common capital stock	13	**189**	10,726
Cash and cash equivalents provided by (used for) financing activities		**(3,868)**	10,489
Effect of changes in exchange rates on cash and cash equivalents		**(144)**	84
Cash and cash equivalents provided by (used for) discontinued operations included in other liabilities		**(1,164)**	477
Change in cash and cash equivalents		**(5,935)**	6,669
Cash and cash equivalents at beginning of year		**13,716**	7,047
Cash and cash equivalents at end of year		**$ 7,781**	$ 13,716
Cash and temporary investments are comprised of:			
Cash and cash equivalents		**$ 7,781**	$ 13,716
Temporary investments	5	**45,191**	42,250
		$ 52,972	$ 55,966
Interest paid		**$ 2,571**	$ 3,859
Income taxes paid		**$ 10,700**	$ 12,465

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended March 31, 2003 and 2002 (All dollar amounts in thousands, except share data)

Note 1. Nature of activities

Héroux-Devtek Inc. and its business units (the "Company") specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace & defence and industrial sectors. As such, a significant portion of the Company's sales are made to a limited number of customers mainly located in the United States.

Note 2. Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and its following wholly-owned subsidiaries:

Héroux Corp.
McSwain Manufacturing Corporation
A.B.A. Industries, Inc.
2816709 Canada Inc.
9077-2070 Québec Inc.
Héroux-Devtek Aerostructure inc.
Métro Machining Corporation
Les Industries C.A.T. inc.
Devtek Corporation
Devtek Aerospace inc.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments which have maturities of less than three months at the date of acquisition.

Temporary investments

Temporary investments are recorded at cost, which does not differ significantly from their market value.

Inventories valuation and revenue recognition

a) Raw materials, work in process and finished goods

Inventories of raw materials, work in process and finished goods are valued at the lower of cost (weighted-average cost method) and net realizable value. Cost of work in process and finished goods include raw materials, direct labor and manufacturing overhead.

b) Long-term contracts

- Sales and income on long-term contracts are recognized as units are delivered.
- **Design to manufacture programs and major assembly manufacturing programs**

  Inventories include raw materials, direct labor and related manufacturing overhead and comprise non-recurring costs (development costs, pre-production and tooling costs), production costs and the excess over average production costs (production costs incurred in the early stage of a program, in excess of the average estimated unit cost for the entire program).
- **Other programs**

  Inventories include raw materials, direct labor and related manufacturing overhead and comprise tooling costs specifically related to these programs, which are capitalized and amortized on a straight-line basis over two years.
- **Reviews**

  Periodically, a review of all long-term contract assumptions relating to the number of anticipated units of production, costs of production and sales applicable to long-term contracts is made and, if applicable, profit margins of units ready for delivery of each long-term contract are revised. The effect of these changes to the estimated income of each contract is recognized in the period in which it has been determined and losses, if any, are recognized fully when anticipated.

Summary of significant accounting policies (cont.)

Capital assets

Capital assets are recorded at cost and amortization is provided for on a straight-line basis over the estimated useful lives of the related assets, as follows:

Building and leasehold improvements	5 to 40 years
Machinery, equipment and tooling	3 to 15 years
Automotive equipment	3 to 10 years
Computer and office equipment	3 to 5 years
Finite-life intangible assets	3 to 5 years

Translation of foreign currency

- **Self-sustaining foreign operations**

  The assets and liabilities of subsidiaries denominated in a foreign currency are translated at the exchange rate in effect at the balance sheet dates. Revenues and expenses are translated at the average exchange rate for the year. Translation gains and losses are deferred and shown separately in shareholders' equity.

- **Foreign currency transactions**

  Except for transactions for which the Company has entered into forward foreign exchange contracts, monetary items in foreign currencies included in current assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at year-end. Revenue and expense accounts realized in foreign currencies are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in the statements of income.

- **Derivative financial instruments**

  The Company utilizes certain derivative financial instruments in order to eliminate or reduce its exposure to currency risks related to export sales. These financial instruments are not recorded in the consolidated financial statements at the time of contract. Management is responsible for establishing standards of acceptable risks and monitoring, as appropriate, the transactions covering these risks. The Company uses financial instruments for the sole purpose of hedging existing commitments or obligations. These derivative financial instruments are not used for trading purposes.

Forward foreign exchange contracts

Monetary items in foreign currencies included in current assets and liabilities, hedged by forward foreign exchange contracts, are translated using the average exchange rate of these contracts prevailing at year-end. Gains and losses on forward foreign exchange contracts are included in the revenues in the same period as the related sales.

Interest rate swap

The Company utilizes interest rate swap agreements to manage the fixed and floating interest rate mix of its debt portfolio. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based and are recorded as an adjustment of interest expense on the hedged debt instrument. Premiums paid, if any, in relation to these contracts are amortized on a straight-line basis over the duration of the contracts.

Deferred financing costs

The deferred financing costs are amortized on a straight-line basis over the duration of the related loans and their unamortized portion is shown in other assets.

Income taxes

Income taxes are provided for using the liability method. Under this method, future income tax assets and liabilities are determined based on all significant differences between the carrying amounts and tax bases of assets and liabilities using substantively enacted tax rates and laws expected to be in effect when the differences reverse.

Earnings per share

The earnings per share are determined using the weighted average number of outstanding shares during the year. The treasury stock method is used to calculate the diluted earnings per share. This method assumes that the proceeds would be used to purchase common shares at the average market price during the financial year.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired businesses. Prior to April 1, 2002, the Company amortized goodwill on a straight-line basis over a period of 20 years. Effective April 1, 2002, the Company adopted prospectively the new Canadian Institute of Chartered Accountants recommendations with respect to business combinations, goodwill and other intangible assets and ceased amortizing goodwill and adopted the goodwill impairment model. Impairment of goodwill is recognized when events or changes in circumstances indicate that the carrying amount of a reporting unit is less than its fair market value. Measurement of the fair market value of a reporting unit is based on estimated discounted cash flows and market values of similar business.

Note 2. Summary of significant accounting policies (cont.)

Pension plans and other post-retirement benefits

The Company has defined benefit pension plans covering certain of its employees. The cost of pension benefits earned by employees is determined using the projected unit credit actuarial method prorated on services. Pension costs are determined periodically by independent actuaries. Pension expense is charged to operations and includes:

- The cost of pension benefits provided in exchange for employees' services rendered during the year;
- The amortization of the initial net transition obligation on a straight-line basis over the expected average remaining service life of the employee group covered by the plans;
- The amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans; and
- The interest cost of pension obligations, the return on pension fund assets and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial method prorated on services.

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to directors, officers and key employees. The Company uses the Black & Scholes model to determine the fair value of stock options, and expenses all granting of stock options based on their earned period. Compensation expenses are included in Selling and administrative expenses and their counterpart is accounted for in the contributed surplus of the Company.

Stock Appreciation Right plan

The Company has a Stock Appreciation Right (SAR) plan where rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the market price of a common share on the exercise date of the SAR over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted value. Compensation expenses are included in Selling and administrative expenses and their counterpart is accounted for in the accrued liabilities of the Company.

Management's estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the sales contract assumptions, determination of pension and other employee benefits, reserves for environmental matters and for the restructuring of operations, the useful life of assets for amortization and evaluation of net recoverable amount, the determination of fair value of assets acquired and liabilities assumed in business combinations, implied fair value of goodwill, provisions for income taxes and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

Changes in accounting policies

- **Goodwill**

  The Canadian Institute of Chartered Accountants adopted new recommendations with respect to business combinations, goodwill and other intangible assets. Effective July 1, 2001, the standards require that all business combinations be accounted for using the purchase method. Goodwill is not amortized to income and is assessed for impairment on an annual basis. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is not required. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared to its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. This new recommendation is effective for the period starting after January 1, 2002. Effective April 1, 2002, the Company prospectively adopted the new recommendations and therefore ceased amortizing goodwill and adopted the goodwill impairment model introduced by the new accounting rules. The Company evaluated that the adoption of these new standards referred to above had no impact on its financial position as at April 1, 2002.

Summary of significant accounting policies (cont.)

Changes in accounting policies (cont.)

- **Stock Option Plan**

  Effective April 1, 2002, the Company adopted prospectively new recommendations of the Canadian Institute of Chartered Accountants with respect to stock-based compensation. These recommendations require that a fair value be determined for options at the date of grant and that such fair value be recognized or disclosed in the financial statements. On that basis, the Company chose to expense all granting of stock options and an amount of $81 was accounted for and included in Selling and Administrative expenses for the fiscal year ended March 31, 2003.

- **Guarantees**

  In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14, *Disclosure of Guarantees* (AcG-14), which clarifies disclosure requirements for certain guarantees. The Company adopted the new recommendations for the year ended March 31, 2003.

Future changes in accounting policies

- **Impairment and disposal of long-lived assets**

  Effective April 1, 2003, the Company adopted prospectively the new accounting policies in regard to the impairment and disposal of long-lived assets.

  - **Impairment of long-lived assets**

    In December 2002, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3063, *Impairment of Long-lived Assets.* This new section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces requirement for impairment in Property, Plant and Equipment, Section 3061. The section requires an impairment loss for a long-lived asset to be held and used be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. An impairment loss for a long-lived asset to be held and used should be measured as the amount by which its carrying amount exceeds its fair value. According to the new CICA recommendation, Section 3063 will be applied prospectively for years beginning on or after April 1, 2003.

    The Company does not expect any significant adjustment to the carrying value of its property, plant and equipment as a result of this change in accounting policy.

  - **Disposal of long-lived assets**

    In December 2002, the CICA also issued revised Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations*. This new section provides guidance on the recognition, measurement and disclosure of the disposal of long-lived assets. This section will be applied to disposal activities initiated by a Company's commitment to a plan on or after May 1, 2003.

    The Company does not expect any significant impact upon adoption of this revision.

  - **Asset retirement obligations**

    In March 2003, the CICA issued a new section in the CICA Handbook, Section 3110, *Asset retirement obligations*. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. This section comes into effect for the Company in 2004. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Restructuring charges and goodwill impairment

Considering the significant reduction in demand in the industrial gas turbine market, and taking into account the current economic environment in the United States and the Company's manufacturing capacity utilization in its Gas Turbine Division, management has taken steps to consolidate production and thereby reduce its fixed manufacturing and general overhead costs. In December 2002, the decision was taken to close the gas turbine components manufacturing plants in Tampa and gradually transfer all of these operations to the Gas Turbine Division's Cincinnati plants.

In order to minimize the impact on customer deliveries, the Company has implemented a restructuring plan spread over a six-month period.

In fiscal year 2003, the Company recorded restructuring charges and goodwill impairment to account for the closure of the Tampa plants amounting to $9,177, of which $3,510 is included in the Company's accounts payable and accrued liabilities at March 31, 2003, to provide for the following:

Note 3 Restructuring charges and goodwill impairment (cont.)

- The write-down of capital assets to be disposed of;
- Provision for unused leased equipment;
- Goodwill impairment related to Industrial Gas Turbine business; and
- Other related direct expenses necessary to the realization of the restructuring plan.

Goodwill impairment amounting to $2,100 was recorded due to the significant reduction in Industrial Gas turbine business, whose market is not expected to recover before the fiscal year 2006. This amount was recorded net of a $894 write-off of related unused accrued liabilities recorded at time of acquisition of the Gas Turbine Division, resulting in a net goodwill impairment of $1,206.

The negative impact of these restructuring charges and goodwill impairment on the Company's net income represented $6,467, net of income taxes of $2,710.

Note 4 Financial instruments and risk management

Credit risks related to derivative financial instruments

Presently the Company engages in derivative financial instruments only with Canadian chartered banks or their subsidiaries. Thus, the Company does not anticipate any breach of agreement by counterparties.

Interest rate risk

In order to limit the effect of interest rate variations over the portion of its long-term debt in U.S. currency, the Company has entered into a five-year interest rate swap agreement for an amount of US$10,000. This agreement, dated August 2, 2002, fixes the Libor rate at 4.1%.

Foreign exchange risks

The Company entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.5063 an amount of US$60,500 (US$69,000 at an average rate of 1.4889 in 2002) for the purpose of foreign exchange risk management related to its export sales maturing at various dates between April 1, 2003 and September 28, 2007.

Credit concentration risks and credit risks

A significant portion of the Company's sales are made to a limited number of customers. However, credit concentration risks are limited due to the fact that the Company deals generally with large corporations and/or government agencies, with the exception of sales made to non government agencies outside North America, which represent less than 3% of the Company's total sales.

Fair value of financial instruments

At March 31, the book value of all financial instruments approximated fair value, with the exception of the following financial instruments:

	2003		2002	
	Book value	Fair value	Book value	Fair value
Current portion of long-term debt and long-term debt	**$ 66,990**	**$ 64,298**	$ 64,640	$ 62,857
Off balance sheet derivative instruments:				
Forward foreign exchange contracts				
Net debtor position	**–**	**119**	–	7,828
Interest rate swap				
Net debtor position	**–**	**793**	–	–

The following methods and assumptions have been used to evaluate the fair value of each category of financial instruments:

For certain financial instruments of the Company, including cash and temporary investments, accounts receivable and other receivables, bank loan, accounts payable and accrued liabilities and customers' advances, the book value approximates fair value because of the near maturity of such financial instruments.

The fair values of the current portion of long-term debt and long-term debt are determined by discounting the future contractual cash flows anticipated pursuant to the financial contracts in force using discount rates which represent the interest rates on loans of which the Company could avail itself for loans having similar terms and conditions.

The fair value of derivative financial instrument contracts is determined from prices obtained by the Company for identical or similar instruments. The fair value of forward foreign exchange contracts is based on the most recent foreign exchange rates.

Cash and temporary investments

As at March 31, 2003, Cash and temporary investments include $45,191 ($42,250 in 2002) of temporary investments bearing interest between 2.85% and 3.32% (2.08% and 4.48% in 2002). These temporary investments consist of Banker's acceptances secured by a Canadian chartered bank with maturity dates varying from April to September 2003 (April to August in 2002). The full amount of $45,191 ($42,250 in 2002) is invested in temporary investments with durations of more than 3 months.

Note 6. Inventories

Inventories consist of:	2003	2002
Raw materials	$ 13,683	$ 18,359
Work in process and finished goods	51,163	53,187
Less: Progress billings	6,196	10,419
	$ 58,650	$ 61,127

Progress billings received during the production process are reduced from the related inventories.

At March 31, 2003, the work in process and finished goods include non-recurring costs (development costs, pre-production costs and tooling costs) and the excess over average production costs (production costs incurred in the early stage of a program, in excess of the average estimated unit cost for the entire program) of $3,524 ($4,151 in 2002).

Note 7. Capital assets

Inventories consist of:

	2003		
	Cost	Accumulated amortization	Net book value
Land	$ 3,138	$ –	$ 3,138
Building and leasehold improvements	43,394	14,631	28,763
Machinery, equipment and tooling	129,480	69,898	59,582
Automotive equipment	929	790	139
Computer and office equipment	8,853	6,919	1,934
Finite-life intangible assets	10,388	6,547	3,841
	$ 196,182	$ 98,785	$ 97,397

	2002		
	Cost	Accumulated amortization	Net book value
Land	$ 3,206	$ –	$ 3,206
Building and leasehold improvements	43,994	11,802	32,192
Machinery, equipment and tooling	116,892	63,189	53,703
Deposits on machinery and equipment	341	–	341
Automotive equipment	897	745	152
Computer and office equipment	8,663	5,745	2,918
Finite-life intangible assets	8,249	5,501	2,748
	$ 182,242	$ 86,982	$ 95,260

During the year, the Company restructured its U.S. operations and management decided to fully integrate and transfer all the manufacturing operations of its Tampa plants (ABA Industries) to its operating plants in Cincinnati (McSwain Manufacturing) (see Note 3). Management also decided to transfer all of its manufacturing operations of Metro Machining Corporation to its new manufacturing facility in Dorval. Once the integration and transfer of operations referred to above are completed, all surplus capital assets, included in the Company's capital assets and having a net book value of $4,549 at March 31, 2003 ($3,816 for Land and building and $733 for Machinery and equipment), net of their related write-down of $3.9 million, will be disposed of.

At March 31, 2003, cost of machinery, equipment and tooling includes assets acquired through capital leases amounting to $20,736 ($9,674 in 2002) with accumulated amortization of $1,084 ($211 in 2002).

Note 8. Other assets

The Company's other assets can be summarized as follows:

		[illegible]		[illegible]
Deferred financing costs – net	$	**962**	$	1,220
Preferred shares, redeemable in five (5) years, representing a sale balance on the sale of a subsidiary in December 1999		**–**		500
	$	**962**	$	1,720

The early redemption of the preferred shares, held in a subsidiary sold in December 1999, was concluded last November 2002.

Note 9. Accounts payable and accrued liabilities

At June 12, 2000, the purchase price for the acquisition of Devtek Corporation and its subsidiaries included adjustments to the net book value of the net assets acquired representing contingency and reorganization reserves. At March 31, 2003, the balance of these reserves amounted to $6,514 ($7,561 in 2002) and are included in accounts payable and accrued liabilities.

Note 10. Customers' advances

The customers' advances amounting to $3,912 as at March 31, 2003 ($6,123 in 2002), represent unearned amounts received from customers, in the Company's Logistics and Defence division, at time of signature of the contracts. These customers' advances are liquidated based on units delivered to customers and are guaranteed by the Company. These guarantees are reduced as the customers' advances are liquidated.

Note 11. Long-term debt

		[illegible]		[illegible]
Unsecured Syndicated Evergreen Revolving Credit Facilities of up to $100,000 (either in Canadian or U.S. currency equivalent) having revolving periods of two (2) years extendible annually, bearing interest at Bankers' acceptance plus 1.5% for the Canadian term facility, (prime plus ½% in 2002), at U.S. base rate plus ½% for the U.S. operating facility, and at Libor plus 1.5% for the U.S. term facility representing 4.5% (4.25% in 2002), 4.75% (5.25% in 2002) and 5.6% (5.25% in 2002) respectively at March 31, 2003. At March 31, 2003, the Company used US$5,391 ($680 and US$7,750 in 2002) on operating facilities and used $13,925 and US$10,000 ($14,130 and US$7,750 in 2002) on term facilities.	$	**36,517**	$	39,534
Loans bearing no interest, repayable in variable annual installments, with various expiry dates until 2013.		**15,642**		14,700
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between June 2004 and September 2009, with amortization periods varying between five (5) to eight (8) years, secured by the related capital assets, net of interest of $3,003.		**14,831**		7,256
Term loans, obtained by way of the immigrant investors' program of Québec, bearing interest between 0% and ½%, maturing July 24, 2002 ($2,100) and February 2003 ($350), guaranteed by the related investments.		**–**		2,450
Sale balance related to the acquisition of some of the Company's canadian subsidiaries, bearing interest at 6%, maturing on May 31, 2002.		**–**		700
		66,990		64,640
Less: current portion		**3,340**		5,075
	$	**63,650**	$	59,565

Note 11. Long-term debt (cont.)

Unsecured Syndicated Evergreen Revolving Credit Facilities

On March 21, 2002, the Company entered into Unsecured Syndicated Evergreen Revolving Credit Facilities allowing the Company and its subsidiaries to borrow up to $100,000 (either in Canadian or U.S. currency equivalent) for its operations, acquisitions and foreign exchange risks from a group of banks and their American subsidiaries or branches. These credit facilities consisting of revolving operating credit facilities (up to $35,000) and revolving term credit facilities (up to $65,000), each having a two (2) year revolving period extendible annually, were structured on an unsecured basis, subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. In the event that the credit facilities are not extended, the operating credit facilities will mature at the end of the revolving period. As to the term credit facilities, they will convert at the end of the revolving period into a three-year term loan with an amortization period of five (5) years. These Unsecured Syndicated Evergreen Revolving Credit Facilities were extended on March 21, 2003.

Interest rates vary based on prime, Bankers' acceptance, Libor or U.S. base rate plus a relevant margin depending on the level of the Company's indebtedness and cash flows.

These Unsecured Syndicated Evergreen Revolving Credit Facilities are governed by two credit agreements (Canadian and American).

Loans bearing no interest

Loans bearing no interest represent essentially government assistance for the purchase of specialized equipment or tooling and for the modernization or additions to the Company's facilities. They were granted as incentives under some federal regional programs and provincial industrial programs to favour the development of the industry in Canada. Some of these loans are repayable according to certain specific conditions, in particular depending on the Company's aerospace sales and the Company's sales of certain predetermined aircraft landing gear or parts within specific delays.

During the year, certain loans bearing no interest included in the long-term debt were written off ("debt"). This debt was repayable under certain conditions which are not realizable under the existing economic situation. The related assets acquired under these loans had been fully amortized and the balance of the related debt of $1,464 was carried to the Company's 2003 results and was included in the cost of sales.

Immigrant investor loans

The immigrant investor loans related to the investments were obtained through the acquisition of Metro Machining Corporation and "Les Industries CAT Inc." and were repaid at maturity with their related investments. In 2002, these investments represented $2,390 and were included in other receivables.

Restrictive covenants

Long-term debt is subject to certain general and financial covenants related amongst others to the working capital, the capital expenditures, the indebtedness, the cash flows and the equity of the Company and/or certain subsidiaries. As to the Unsecured Syndicated Evergreen Revolving Credit Facilities, the Company and its subsidiaries have agreed to create charges on their total assets in favour of the lenders if certain restrictive financial covenants concerning the debt level and cash flows are not respected.

At March 31, 2003, the Company had complied with all restrictive covenants.

Letter of credit

At March 31, 2003, the Company had an outstanding letter of credit of $305 ($610 in 2002).

Minimum repayments

Minimum repayments of long-term debt during the next five years are as follows:

Years ending March 31

Year	Repayments on capital leases	Repayments on loans bearing no interest	Repayments related to the earliest termination of revolving credit facilities	Total
2004	$ 3,001	$ 1,208	$ –	$ 4,209
2005	2,991	1,415	7,914	12,320
2006	2,955	1,352	5,721	10,028
2007	2,938	2,466	5,721	11,125
2008	3,392	3,590	17,161	24,143

The minimum repayments include interest on obligations under capital leases of $2,902.

Note 11. Long-term debt (cont.)

Financial expenses

The financial expenses, as at March 31, are comprised of:

		2003		2002
Interest and deferred financing cost amortization on long-term debt	**$**	**3,069**	$	2,604
Interest and unamortized deferred financing cost write-offs related to early termination of certain long-term debt		**–**		690
Stand by fees		**219**		–
Interest on bank loan		**–**		707
Interest revenue		**(1,302)**		(1,773)
Financial expenses	**$**	**1,986**	$	2,228

Note 12. Other liabilities

The Company's other liabilities are comprised of the following:

		2003		2002
Pension Plans and other post-retirement benefits including liabilities related to divestiture of some of Devtek's subsidiaries prior to their acquisition by the Company on June 12, 2000 (discontinued operation liabilities)	**$**	**6,414**	$	6,118
Salaries and other compensations related to divestiture referred to above		**310**		1,196
Others		**624**		624
	$	**7,348**	$	7,938

Note 13. Capital stock

Authorized capital stock

The authorized capital stock of the Company consists of the following:
An unlimited number of common shares
An unlimited number of first preferred shares, issuable in series
An unlimited number of second preferred shares, issuable in series.

The rights, privileges, restrictions and conditions related to the preferred shares may be established by the Board of Directors.

The issued and outstanding capital stock of the Company consists of the following:

		2003		2002
23,544,659 common shares (24,443,937 in 2002)	**$**	**71,317**	$	73,958

Common shares issued

On July 10, 2001, the Company issued 1,000,000 common shares at a price of $9.91 on a private placement basis. The net proceeds of $9,883 is used for general financing purposes and to support the growth of the Company.

The Company issued 35,000 (152,250 in 2002) common shares for a total cash consideration of $189 ($843 in 2002) relating to the exercise of stock options.

Repurchase of common shares

On August 21, 2002, the Company obtained approval from the Toronto Stock Exchange to proceed with its normal course issuer bid allowing the Company to purchase up to 1,222,195 of its common shares during the twelve-month period ending August 20, 2003. During the year, the Company repurchased for cancellation 934,278 common shares for a total cash consideration of $4,549. The excess ($1,719) of the cost of the common shares repurchased over their average book value ($2,830) was accounted for in reduction of the Company's retained earnings.

Stock option plan

Under the stock option plan (the "plan"), options are granted to directors, officers and key employees. The plan establishes that the subscription price will be equal to the closing price of the related shares on the day preceding the granting of the options. Options generally may be exercised after the first anniversary of the date of grant until the seventh anniversary of the date of grant. The aggregate number of shares reserved for issuance under the plan is 2,277,118 of which 314,750 shares have not yet been granted.

Note 13. Capital stock (cont.)

Stock option plan (cont.)

During the year, the Company granted to key employees 200,000 stock options representing a total fair value of $546 calculated using the Black-Scholes valuation model assuming a seven-year term, expected volatility of 35%, no expected dividend distribution and a compounded risk free interest rate of 5.2%. Stock options cost is amortized over their earned period and the expense of $81 was accounted for in Selling and administrative expenses and, its counterpart, in the contributed surplus shown in the Company's shareholders' equity.

As of March 31, 2003, 983,350 options were issued and outstanding as follows:

	Outstanding options			Vested options	
Range of exercise price	Number	Weighted-average years of maturity	Weighted-average exercise price	Number	Weighted-average exercise price
$3.50 to $5.00	342,600	3.4	$ 4.58	278,600	$ 4.61
$5.00 to $6.50	313,250	0.9	5.93	313,250	5.93
$6.50 to $8.00	65,000	5.1	7.65	13,000	7.65
$8.00 to $10.00	262,500	5.8	9.70	23,500	9.60
	983,350	3.4	$ 6.58	628,350	$ 5.52

During the year, the number of options has varied as follows:

	2003		2002	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of year	**$ 6.05**	**866,350**	$ 5.30	851,600
Granted	**8.48**	**200,000**	8.95	192,500
Exercised	**5.39**	**(35,000)**	5.54	(152,250)
Cancelled	**5.90**	**(48,000)**	5.89	(25,500)
Balance at end of year	**$ 6.58**	**983,350**	$ 6.05	866,350

In fiscal 2003, the Company also granted 12,500 stock appreciation rights (SAR) to its non-employee directors (22,500 in fiscal 2002). SAR are expensed on an earned basis and their costs are determined based on the excess of the Company's common shares quoted market value over their granted value. No expense was recorded for SAR in fiscal year 2003 and 2002.

At March 31, 2003, on a cumulative basis, 25,000 SAR were still outstanding at a weighted-average granted value of $7.57.

Diluted earnings per share

In fiscal year 2003, the use of the treasury method, for the diluted earnings per share calculations had no impact on the average number of common shares and increased the average number of common shares by 282,466 to 24,345,504 in 2002.

Note 14. Cumulative translation adjustment

The variation in the cumulative translation adjustment of ($1,757) during the year ($381 in 2002) reflects the impact of the foreign exchange rate fluctuations on the net assets of foreign subsidiaries.

Note 15. Income taxes

The computation of income taxes is as follows:

		2003		2002
Income taxes at combined federal and provincial tax rates	$	**(45)**	$	9,677
Large corporations' tax		**144**		122
Tax incentives for manufacturing and processing		**(670)**		(878)
Impact of non-deductible items charged to income net of non-taxable revenue items		**119**		30
Income tax rate difference-US subsidiaries		**315**		146
Income tax rate differential applicable to certain Canadian subsidiaries		**175**		298
Reduction in Future income tax liabilities		**(600)**		–
Other items		**281**		703
	$	**(281)**	$	10,098

Temporary differences and carry-forwards, which give rise to future income tax assets and liabilities, are as follows:

		2003		2002
Future income tax assets				
Current				
Non-deductible reserves	$	**4,974**	$	3,894
Inventories		**956**		836
	$	**5,930**	$	4,730
Long-term				
Loans bearing no interest	$	**969**	$	803
Restructuring charges		**2,710**		–
Capital assets		**153**		1,329
Other		**934**		787
	$	**4,766**	$	2,919
Future income tax liabilities				
Current				
Inventories	$	**380**	$	720
	$	**380**	$	720
Long-term				
Capital assets	$	**11,310**	$	10,134
Other		**(182)**		400
	$	**11,128**	$	10,534
Income taxes are as follows:				
Current taxes	$	**2,659**	$	8,745
Future taxes		**(2,940)**		1,353
	$	**(281)**	$	10,098

Note 16. Net change in non-cash items related to operations

The net change in non-cash items related to operations can be detailed as follows:

		2003		2002
Accounts receivable	$	**11,017**	$	4,724
Income taxes receivable		**(3,785)**		–
Other receivables		**(2,159)**		198
Inventories		**2,477**		(230)
Prepaid expenses		**(98)**		(295)
Accounts payable and accrued liabilities and other liabilities		**(379)**		(100)
Customers' advance		**(2,211)**		(6,953)
Income taxes payable		**(2,644)**		(1,706)
Effect of changes in exchange rate		**(1,485)**		259
	$	**733**	$	(4,103)

Note 17. Pension plans and other post-retirement benefits

The Company has defined benefit pension plans covering certain of its employees. The cost of pension benefits earned by employees is determined using the projected unit credit actuarial method prorated on services.

During the year ended March 31, 2001, the Company converted a defined benefit plan to a defined contribution plan. Upon receipt of the government approval, the Company made a lump-sum payment to the employees' contribution pension plan in 2002.

In fiscal year 2003, the Company offered an early retirement program to certain employees of one of its division. The eligible employees who accepted to retire under this program received an additional temporary pension payable up to the age of 65. This additional liability resulting from that program has been accounted for in the pension expense of the fiscal year 2003 as "special termination benefits".

Based on the most recent actuarial calculations, as at March 31, 2003 and 2002, the information related to these defined benefit pension plans can be summarized as follows:

		2003		2002
Accrued benefit obligation				
Accrued benefit obligation, beginning of the year	$	**19,482**	$	20,947
Current service cost		**1,136**		1,074
Interest cost		**1,128**		1,006
Lump-sum payment following plan termination		**–**		(2,651)
Special termination benefits		**628**		–
Benefits paid		**(851)**		(616)
Actuarial losses (gains)		**990**		(278)
Accrued benefit obligation at end of year	$	**22,513**	$	19,482

		2003		2002
Plan assets				
Fair value at beginning of the year	$	**9,819**	$	9,797
Actual return on plan assets		**(794)**		699
Employer contributions		**1,606**		2,155
Employee contributions		**544**		435
Lump-sum payment following plan termination		**–**		(2,651)
Benefits paid		**(851)**		(616)
Fair value of plan assets at end of year	$	**10,324**	$	9,819

Note 17. Pension plans and other post-retirement benefits (cont.)

		2003		2002
Funded status				
Deficit	$	(12,189)	$	(9,663)
Unamortized net actuarial loss		3,314		803
Unamortized transitional obligation from acquisitions		563		696
Unamortized transitional obligation		1,041		1,116
Unamortized past service cost		857		930
Accrued liability	$	(6,414)	$	(6,118)

The amounts referred to above, including the accrued benefit obligation, the fair value of plan assets and the accrued benefit liability at the end of the corresponding year, represent also the amounts related to the pension plans that are not totally funded.

The most important actuarial assumptions used in order to evaluate the accrued benefit obligation can be summarized as follows:

	2003	2002
Discount rate	6.75 %	6.50 %
Expected long-term return on plan assets	7.00 %	8.00 %
Rate of compensation increase	3.50 %	3.25 %

The net pension plan expense of the Company's defined benefit plans can be detailed as follows:

		2003		2002
Employer current service cost	$	592	$	639
Interest cost		1,128		1,006
Expected return on plan assets		(733)		(687)
Amortization of transitional obligation		208		208
Amortization of past service cost and actuarial loss		80		76
Special termination benefits		628		–
Net pension plan expense	$	1,903	$	1,242

In addition, the Company offers also some defined contribution plans covering certain of its employees. The defined contribution plan expense represents $1,193 in 2003 ($1,757 in 2002).

The amounts relating to other post-retirement benefits are not included above because they are not significant.

Note 18. Commitments

Building lease contracts

The Company has entered into some leases for buildings which are used for manufacturing operations and administration. The total commitments at March 31, 2003 amounted to $230 excluding escalation clauses. The minimum annual lease payments over the next years are: $215 in 2004, $15 in 2005, and $0 in 2006 and after.

Operating lease contracts - machinery and equipment

Under operating lease contracts for machinery and equipment used for its manufacturing operations, the Company has commitments at March 31, 2003 of $19,230 for which the minimum annual operating lease payments, over the next five years, are: $4,745 in 2004, $4,420 in 2005, $4,000 in 2006, $3,796 in 2007 and $2,269 in 2008.

Under these operating lease contracts, the Company has the option to purchase the related machinery and equipment at the end of the contract. These purchase option payments represent the following: $106 in 2004, $1,057 in 2005, $81 in 2006, $752 in 2007 and $4,680 for 2008 and after.

Guarantees

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued a new accounting guideline on *Disclosure of Guarantees*, which clarifies disclosure requirements for certain guarantees. The Company adopted the new recommendations effective March 31, 2003. In the normal course of business, the Company enters into numerous agreements that may contain features that meet this new requirement on disclosure of guarantees. This new accounting guideline defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying that is related to an asset, a liability or an equity of the guaranteed party or (ii) failure of another party to perform under an obligating agreement.

Note 18. Commitments (cont.)

Guarantees (cont.)

The Company executes agreements that provide for indemnification and guarantees to counterparties in transaction such as business disposition and the sale of assets.

These indemnification undertakings and guarantees may require the Company to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislation), valuation differences or as a result of litigation that may be suffered by the counterparties.

Business and real estate dispositions

In the sale of all or a part of a business or real estate, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Company may agree to indemnify against claims from its past conduct of the business. Typically, the term and amount of such indemnification will be limited by the agreement. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability that could be required to pay to guaranteed parties. The Company has accrued an amount of $6,078 in the Consolidated balance sheet in respect to this item.

Director/Officer indemnification

Under its by-laws, the Company indemnifies its directors/officers, former directors/officers and individuals who have acted at the Company's request to be a director/officer of an entity in which the Company is a shareholder or creditor, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to pay to the guaranteed party. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the consolidated balance sheet with respect to these indemnifications.

Note 19. Contingencies

The Company is involved in litigations and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

Note 20. Segmented information

The Company's two operating segments are aerospace & defence and industrial. The aerospace & defence segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for military and civil aviation and small arms for the defence industry. The industrial segment represents essentially the manufacture and sale of gas turbine components and other high precision machined products.

The Company evaluates the performance of its operating segments primarily based on operating income before financial expenses and provision for income taxes.

The Company accounts for intersegment and related party sales and transfers, if any, at exchange values.

The accounting policies used to account for the operating segments are the same as those described in the summary of the Company's significant accounting policies.

Note 20. Segmented information (cont.)

Segmented information consists of the following:

Activity Segments

	2003			2002		
	Products related to Aerospace & Defence	Industrial Products	Total	Products related to Aerospace & Defence	Industrial Products	Total
Sales	**$ 229,196**	**$ 31,435**	**$ 260,631**	$ 252,858	$ 63,422	$ 316,280
Operating income (loss)	**17,625**	**(6,589)**	**11,036**	22,487	8,607	31,094
Financial expenses			**1,986**			2,228
Restructuring charges and goodwill impairment			**9,177**			–
Income (loss) before income taxes and goodwill amortization			**(127)**			28,866
Assets	**245,245**	**43,822**	**289,067**	238,184	61,453	299,637
Goodwill	**22,060**	**–**	**22,060**	22,060	2,100	24,160
Purchase of capital assets	**19,460**	**4,083**	**23,543**	21,060	9,277	30,337
Amortization	**11,087**	**3,691**	**14,778**	9,953	3,563	13,516

Geographic Segments

	2003			2002		
	Canada	Outside Canada	Total	Canada	Outside Canada	Total
Sales	**$ 208,146**	**$ 52,485**	**$ 260,631**	$ 226,910	$ 89,370	$ 316,280
Operating income (loss)	**19,089**	**(8,053)**	**11,036**	22,031	9,063	31,094
Financial expenses			**1,986**			2,228
Restructuring charges and goodwill impairment			**9,177**			
Income (loss) before income taxes and goodwill amortization			**(127)**			28,866
Assets	**231,300**	**57,767**	**289,067**	227,157	72,480	299,637
Goodwill	**20,977**	**1,083**	**22,060**	20,977	3,183	24,160
Purchase of capital assets	**18,008**	**5,535**	**23,543**	19,271	11,066	30,337
Amortization	**9,664**	**5,114**	**14,778**	8,715	4,801	13,516
Export sales	**137,951**			144,244		

65% of the Company's sales (64% in 2002) are destined to US customers.

Note 21. Reclassification

Comparative figures for the financial statements as at March 31, 2002 have been reclassified to comply with the March 31, 2003 presentation.

management

board of directors and corporate management

Board of Directors

Helmut Hofmann †
Chairman of the Board
Héroux-Devtek Inc.
Toronto, Ontario

Gilles Labbé
President and
Chief Executive Officer
Héroux-Devtek Inc.
Longueuil, Québec

Claude Boivin †
Consultant and Member of
various Boards of Directors
Saint-Lambert, Québec

Alain Cousineau *
Partner
Groupe Secor Inc.
Montréal, Québec

Strategic Planning
Consulting Firm

Jean-Louis Fontaine †
Vice-Chairman of the Board
and Director
Bombardier Inc.
Montréal, Québec

Diversified manufacturer of
transportation equipment

Pierre Marcouiller *
Chairman of the Board
Camoplast Inc.
Sherbrooke, Québec

Manufacturer of composite
and thermoplastic products for
light and heavy duty vehicles

Brian A. Robbins *
President and
Chief Executive Officer
Exco Technologies Limited
Toronto, Ontario

Supplier of molded and extruded
parts for the automotive and
industrial markets

† Member of Human Resources and Corporate Governance Committee
* Member of Audit Committee

Corporate Management of Héroux-Devtek

Gilles Labbé
President and
Chief Executive Officer

Réal Bélanger
Executive Vice-President
and Chief Financial Officer

Patrice Gauvin
Vice-President,
Business Development

Martin Brassard
Vice-President,
Control and Information
Technology

Martine Rivard
Vice-President,
Human Resources

Division Management

Landing Gear

Jean Guilbault
President

Claude Beauvais
Vice-President, Operations
Repair & Overhaul
Longueuil

Denis Trudel
Plant Manager
Manufacturing
Longueuil

Nagy Homsy
Vice-President, Engineering
and Quality Assurance
Longueuil, Laval, Kitchener
and DALS

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Plant Manager
Kitchener

Daniel Normandin
Plant Manager
Laval

Aerostructure

Jean Guilbault
President

Yvon Castonguay
General Manager
Héroux-Devtek Aerostructure
Metro Machining
Les Industries C.A.T.

Wolfgang Mildenberger
Operations Manager
Magtron

Gas Turbine Components

Alvin Cook
President

Dave Cook
Operations Manager
Cincinnati, Tampa

Logistics & Defence

Jeff Macleod
General Manager
Diemaco

shareholders' information

Annual General Meeting

The Annual General Meeting of Shareholders will be held on Thursday, September 3, 2003, at 11:00 a.m. in Salon Pierre de Coubertin of the Omni Hotel
1050 Sherbrooke Street West
Montréal, Québec, Canada

Annual Information Form

Shareholders may obtain the Annual Information Form by writing to the Corporate Secretary of Héroux-Devtek

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Share Listing

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Ticker symbol: HRX

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Printed in Canada

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